RAISE THE BAR:

An Action-Based Method for Maximum Customer Reactions

By Jon Taffer with Karen Kelly

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Chapter 8: The Revenue Response

Rule No. 1: Never Lose Money Rule No. 2: Never Forget Rule No. 1 --Warren Buffett, US Entrepreneur and Financier

When the black sheep bar and grill opened its doors in 2007, the Cheviot, Ohio, local hangout took off — raking in about \$70,000 a month in sales even though there had never been a particularly disciplined financial strategy in place. Over time, owners Scott Scherpenberg, his uncle Tommy, and his cousin Greg, seduced by their initial good luck, became distracted by other responsibilities — Scott is a firefighter and his co-owners have other jobs and commitments as well. Inattentiveness because of these competing demands eventually led to a series of predictable woes: staffing issues, deterioration of standards, customer dissatisfaction, and declining sales.

Like many of the intervention subjects on *Bar Rescue*, the Black Sheep's problems were compounded by loans meant to minimize the impact of falling revenues until business magically — because there was no turnaround plan — improved. It was only a matter of time before the partners' neglect and ill-conceived (that is, nonexistent) financial strategies caught up with them. By early 2012, the bar was losing \$8,000 a month and had accumulated more than \$700,000 in debt, a liability that Scott's two partners knew nothing about because he'd borrowed the money without telling them.

When I met with Scott, Tommy, and Greg, I could see they were sincere, hardworking guys — they were motivated to save the bar and willing to accept the fact that they'd have to change their behavior and recommit to maintaining high standards. Sure, the restaurant needed some updating and a good cleaning. But the central issue was a complete misunderstanding of how to budget, track, and control finances. These three were desperately in need of some revamped business planning, a serious budget based on actual data, a realistic plan to get out of debt, and new controls that would start putting more financial figures in the plus column.

Revenue and Reason

The root cause of financial issues that many bars (like the Black Sheep), restaurants, and other entrepreneurial businesses face is the wrong mind-set. If you don't have the right attitude for the job, you will never do the job well. Here's the problem: too many people open bars because they love bars. Of course I've heard the adage "Do what you love, the money will follow," but I don't buy completely into it, at least in this industry. Your greatest shot at success in the bar business comes because you love *business*. If you're not passionate about digging into the numerous accounting, tracking, inventory, and data analysis aspects of running a bar, you're just going to hang out all day and lose all of your money. I've seen it happen.

Bar owners fall into two categories: the social owner and the business-oriented owner. Trouble is, not many people are good at combining both traits. Of course, social skills benefit customers and employees, but management acumen is also a must. These two qualities can often feel contradictory to many passionate and gregarious entrepreneurs. Understood. It's not easy being everyone's best friend while also maintaining authority, reading reports, and commanding the respect of staff. It's wise to remember, however, that you are *not* opening a bar (or any business) for your own amusement. You are opening it to serve your customers and to make money. If you don't think you can handle both sides of the task well, I recommend finding a business partner who complements your strengths — either a hands-on person who can work the front of the house, or a backroom pro who thinks building algorithms is fun.

Like a lot of the owners I meet on *Bar Rescue*, Scott and his cousin and uncle were definitely in the social corner. They weren't drinking their own product, giving freebies to friends, or allowing workers to goof off during shifts like the people over at Angry Ham's. However, they didn't *run* the bar either — being physically present doesn't constitute management. Lack of motivation was due in part to the fact that all three had other jobs — the bar was an enjoyable pastime that over time had become a burden. What do we do when we're tired and yet another obligation vies for our attention? We avoid it. Bingo. Until these partners accepted that the bar needed real management, they'd remain in a financial hole.

If the Black Sheep were to survive, it had to build up and maintain a cash reserve, set a realistic budget, and manage both. Today my budget projections are spot-on; one of the aspects of my consulting business is helping owners and management determine cost and revenue estimates, whether it's a start-up or an existing property. But it wasn't always the case — a few failures early in my career provided valuable insight into the importance of proper planning. In 1992, I opened the Alamo Grill in the Mall of America in Bloomington, Minnesota, and within three months I was in the hole for \$400,000. The Alamo actually had

unbelievable sales, but it still bled cash because I didn't have the right cost structures in place before opening. This was at the center of one of the most powerful lessons I learned about finance.

As a young, cocky know-it-all, I thought I didn't need a detailed opening plan, a contingency plan, an accounting system, cash reserves, or an appropriate line of credit. Between overruns on construction and the expense of promoting and opening the place, I had no cash reserves to cover the constant costs. Getting things in and out of the building was a nightmare. There were more than 450 stores and restaurants all being built at the same time in the same building, each with different contractors. There were times when we had to wait an entire day to access a freight elevator during the construction period. How could I have predicted any of this? When I opened, was already over budget and did not have positive cash flow after two months, even though I was doing great business. We were so busy that my food and beverage overhead remained high. By the time I needed those plans and systems, there was no time to put them in place because the restaurant was so swamped.

An incredibly successful property that was constantly packed in what is still a very popular and heavily trafficked location . . . and I was out of money. That situation forced me to find a partner and give him 60 percent of the business for \$200,000 to get me over a tough financial hump. The following year we did \$800,000 in profits on over \$3 million in sales. Had I conserved more capital and controlled costs from the beginning, I would have reaped the benefits of that accomplishment. I wound up selling the restaurant for well over \$1 million a few years later, but that "deal with the devil" forced me to give away 60 percent of the profits. I never made the same mistake again.

Since then, my first order of business when opening a bar or restaurant is to focus on costs, customers, capital, and expenses. In fact, I'm a nutcase about research, including detailed demographic, psychographic, and competitive analysis. There are nine data groups I work on before I make even one decision about a business. I take a marketing conclusion and I turn it into an objective. I turn the objective into a strategy, and then I work on what kinds of tactics can help reach the goal I've set. By the time I get to that point, it's been several weeks. There is no room for gut decisions in my business; my clients' livelihoods are on the line. I will not allow an operation to open without a budget. So if you're afraid to look at numbers, get out now while you still can. Otherwise, make friends with your calculator and spreadsheet program. You're going to need them.